



*Martin J. Benison, Comptroller  
One Ashburton Place  
Boston, MA 02108*

***December 23, 2004***

***To the Citizens of the Commonwealth of Massachusetts,  
Governor Mitt Romney, Lieutenant Governor Kerry Healey,  
and Honorable Members of the General Court***

I am pleased to transmit the Commonwealth's fiscal 2004 (FY04) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP). The report is the primary means of reporting the Commonwealth's financial activities. The objective of this report is to provide a clearer picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The back of the report includes as "required supplementary information" budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary basis of accounting or statutory basis. More detailed information on the statutory basis of accounting and the results on that basis from FY04 are found in the Statutory Basis Financial Report (SBFR) separately issued this past October. The SBFR report documents compliance with the legislatively adopted budget. Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparison across states.

The fund perspective statements on pages 38 to 51 present the governmental operations on a modified accrual basis of accounting. The account groups for long-term debt and fixed assets are excluded in this presentation. The fund perspective is designed to measure inter - period equity, the extent to which current resources (available within the next year) fully fund all current services provided by the government. Long - term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities. This fund perspective provides results similar to the statutory basis financial statements published in October.

In addition to the fund perspective, this CAFR presents a government-wide perspective. This perspective combines all governmental and business activities in a statement of net assets and a statement of activities, presenting all functions on a full accrual basis of accounting. All fixed assets, including road and bridge infrastructure, are added to the statements as are all long - term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a "net assets format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net assets.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by activity, are netted against fees, fines, grant revenues and assessments generated to fund each activity in an attempt to derive the net cost to the taxpayer of each activity. The format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues by a review of this statement.

To understand the difference between the Commonwealth's budgetary fund balance and the GAAP basis fund perspective balance, as depicted in the fund financial statements and the Commonwealth's governmental financial position under this new presentation, a series of accruals and adjustments must be analyzed as follows:

**Governmental Funds - Statutory to GAAP - Fund Perspective and to  
Governmental Net Assets  
(Amounts in millions)**

**Governmental Funds - Statutory Basis, June 30, 2004:**

Budgeted Fund Balance.....	\$ 1,892.8
Non Budgeted Special Revenue Fund Balance.....	1,592.3
Capital Projects Fund Balance.....	<u>364.8</u>

**Governmental Fund Balance - Statutory Basis, June 30, 2004..... \$ 3,849.9**

Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds for GAAP reporting purposes.....	371.1
Owner Controlled Insurance Program Net Assets.....	<u>159.0</u>

**Adjusted Statutory Governmental Fund Balance..... 4,380.0**

Accruals, net of allowances and deferrals for increases /(decreases):

Taxes.....	\$ 788.9
Medicaid.....	(178.0)
Master Settlement Agreement and other Receivables.....	268.2
Compensated absences.....	(248.4)
Contract Assistance due to Component Units.....	(211.7)
Other accruals:	
Uncompensated care liability.....	(141.9)
Claims, judgements and other risks.....	(37.8)
Workers' compensation and group insurance.....	(153.3)
Other accruals, net.....	(41.6)

**Net increase to governmental fund balances..... 44.4**

**Governmental fund balance (fund perspective)..... \$ 4,424.4**

Plus: Fixed assets including infrastructure.....	28,585.1
Less: Accumulated depreciation.....	(6,811.6)
Plus: Deferred revenue, net of other eliminations.....	642.2
Less: Long term liabilities.....	<u>(33,181.6)</u>

**Total governmental net assets (entity wide perspective)..... \$ (6,341.5)**

This CAFR is presented in three sections: **Introductory**, **Financial** and **Statistical**. This **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains a Management's Discussion and Analysis (MD&A) section, and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis to accompany the basic financial statements in the form of MD&A. This letter of transmittal is designed to complement MD&A where the financial analysis is now presented. The Commonwealth's MD&A can be found immediately following the independent auditor's report from Deloitte and Touche, LLP. The **Statistical Section** contains selected financial and demographic information. It also contains background information on the Commonwealth.

## **PROFILE OF THE COMMONWEALTH**

### **REPORTING ENTITY**

The financial statements incorporate 153 departments. Due to changes predicated by the FY05 General Appropriations Act, seven of these departments are in the process of being closed or merged. Other departments have been repositioned especially within Health and Human Services. These departments include the various agencies, boards, and commissions, the 25 institutions of higher education, the judicial and legislative branches of government, and constitutional offices.

The departments record their daily financial operations in the state accounting system called the Massachusetts Management Accounting and Reporting System (MMARS) operated by the Office of the Comptroller.

In addition, the financial statements include 28 independent public authorities and the State Employees' and Teachers' Retirement Systems. These entities defined as component units meet the criteria for inclusion in the reporting entity in accordance with GAAP, which are further described in Note 1 to the financial statements. For FY04 additional information is presented for College and University foundations in accordance with the implementation of Government Accounting Standards Board (GASB) Statement 39.

### **INDEPENDENT AUDIT**

The Commonwealth's independent auditors, Deloitte & Touche, LLP, together with subcontractors Daniel Dennis & Company, Margaret Carr, CPA and Susan Perna-Damon, CPA with assistance by the Office of the State Auditor (OSA) have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2004. OSA also plays a significant role in the audit of the Schedule of Federal Financial Assistance of the Commonwealth, as prescribed in the Federal Office of Management and Budget's Circular A-133.

We express our gratitude to the staff of the respective firms and the Office of the State Auditor for their professionalism, advice and

counsel. The independent auditor's report is presented in the Financial Section.

The OSA is statutorily mandated to perform audits of the accounts, programs, activities and functions of all departments, offices, commissions, institutions and activities of the Commonwealth. OSA provides its knowledge, expertise, experience and resources as a participant in the single audit of the Commonwealth, which encompasses all of the Commonwealth's financial operations. A more complete discussion of this work can be found in the State Auditor's semi-annual report available on their web site: <http://www.mass.gov/sao>.

The Office of the Comptroller prepares these financial statements and assumes full responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

I again would like to express my thanks to the many dedicated employees within the Office of the State Comptroller and across the government who have worked to upgrade the Commonwealth's accounting system, MMARS. This has been a significant effort but will provide enduring benefits to the Commonwealth. I am proud to have all the individuals on my team that help tackle these and other difficult issues of the future.

Respectfully submitted,

Martin J. Benison  
Comptroller of the Commonwealth